

HEALTH CARE COSTS

MISSION STATEMENT

To develop and coordinate budgets, policies and procedures for the County's health care departments in accordance with the strategic goals adopted by the Board of Supervisors, the County Charter, and general laws.

DESCRIPTION OF MAJOR SERVICES

The role of the Health Care Services Division is to seek and support opportunities to foster collaboration among the Public Health Department, Department of Behavioral Health (DBH) and the Arrowhead Regional Medical Center (ARMC). The Division provides regular fiscal and policy analysis relating to the operations of these departments. The Division also reviews and analyzes all agenda items submitted for Board of Supervisors approval as well as all budget submittals and reports relating to San Bernardino County's health care programs. Additionally, this division manages the \$135.8 million Health Care Costs budget, which includes funding for ARMC debt service, health related maintenance of effort costs, and transfers required to obtain federal health care funding.

This budget unit represents the costs of health care related programs for the county general fund. Health care related transactions represented by this budget unit include the Disproportionate Share Hospital (DSH) Supplemental Payments Programs (SB 855, SB 1255, and Graduate Medical Education (GME)), Realignment "AB 8" match, and the county's contribution for Arrowhead Regional Medical Center debt service payments. Summary information regarding key components of this budget unit appears below.

Disproportionate Share Hospital Programs

The DSH programs were established to provide supplemental Medi-Cal payments to hospitals that provide services to disproportionate numbers of Medi-Cal and other low-income patients. These programs assist safety net hospitals in meeting the uncompensated costs associated with providing medical services to uninsured and underinsured patients. These programs are mechanisms for distributing federal health care funds. The programs require the county to transfer general fund dollars (shown in this budget unit as Other Charges) to the State. Through a matching process, the County receives back its initial contribution, which is recorded in this budget unit as Current Services revenue. In addition to the return of the initial contribution, the county receives federal health dollars which are accounted for in the ARMC budget. The level of the County's contribution is set during the year by the State. As a result, the amounts only represent estimates of the funds needed at the time the budget is prepared. In a similar fashion, the ARMC budget cannot fully reflect the amount of federal health dollars received via DSH programs until the County is notified of the matching amounts during the course of the Fiscal Year. The DSH program comprises two elements:

- The SB 855 program provides supplemental payments to hospitals that serve a disproportionate number of low-income individuals. Public entities are required to transfer funds to the State Department of Health Services by an intergovernmental transfer. These funds are matched with federal funds and redistributed as supplemental payments to all eligible hospitals including non-public hospitals. A hospital may receive DSH payments if its Medi-Cal utilization rate exceeds an established threshold or it uses a designated percentage of its revenues to provide health care to Medi-Cal and uninsured patients.
- The SB 1255 program supplements eligible hospitals that are licensed to provide emergency medical services and contract with the California Medical Assistance Commission (CMAC) to serve Medi-Cal patients under the Selective Provider Contracting Program. Intergovernmental transfers are also made. These funds are combined with matching federal funds and redistributed by CMAC as supplemental payments to hospitals demonstrating a need for additional funds. CMAC ultimately determines the amount received by each participating hospital.
- The GME program is part of the SB 1255 program and it provides supplemental payments to DSH hospitals that are also a teaching facility/institute. Payments are determined solely by CMAC and the amount can vary from year to year. Similar to other SB 1255 revenues, the amount actually received is determined by the state during the course of the fiscal year.



Realignment and General Fund Support

General fund support and realignment funds are used to pay for the ARMC debt service lease payments, Realignment "AB 8" match and administrative costs related to this budget unit. Note: Specific details regarding the financing sources, which are used to cover the County's \$53.4 million annual debt service obligation for the ARMC facility, are provided in the ARMC Lease Payments (EMD JPL) section of the Proposed Budget.

To qualify for receipt of Health Realignment funding from the State, the County must contribute a "match" of local funds. The matching amount is based on a formula, established through AB 8 in 1979, through which the State provided funding to preserve critical health programs in the aftermath of Proposition 13. When the Realignment program was created in 1991, funding allocations were based on the historical AB 8 formula, and local match requirements remained. The County's match requirement for 2004-05 is \$4.3 million; this amount remains constant each per the historical formula. The Realignment match funded in the Health Care Costs budget meets the County's full obligation to receive Health Realignment dollars, which support the Public Health Department and Arrowhead Regional Medical Center. For 2004-05, the County anticipates receipt of approximately \$56.7 million in Health Realignment funding. Important note: The local match requirement for receipt of Mental Health Realignment funding is reflected in the operating budget for the Department of Behavioral Health.

Realignment funds support this budget as follows:

- Mental Health at 3% (which covers half of administrative costs).
- Health at 97% (which covers half of administrative costs plus debt service payments).

The amounts listed as "Operating Transfers Out" represent the County's net debt service obligation for the payment of the Arrowhead Regional Medical Center facility (\$20.9 million) and the required Realignment "AB 8" match (\$4.3 million) which must by law be transferred into trust before Realignment monies can be directed toward health programs.

BUDGET AND WORKLOAD HISTORY

	Actual 2002-03	Budget 2003-04	Estimate 2003-04	Proposed 2004-05
Total Requirements	118,341,508	135,628,083	127,628,960	135,812,669
Departmental Revenue	100,641,507	120,628,083	112,628,960	120,812,669
Local Cost	17,700,001	15,000,000	15,000,000	15,000,000
Budgeted Staffing		4.0		4.0

The variance of \$8.0 million is primarily due to variances in Other Charges, Operating transfers out, and Realignment.

Significant variance is estimated in Other Charges (\$15 million) as the County's requirement to transfer funds to participate in the Disproportionate Share Hospital programs is not determined until later in the fiscal year. Since these expenses are fully offset by an equivalent amount of revenue (recorded as Current Services), any variance has no impact on local cost.

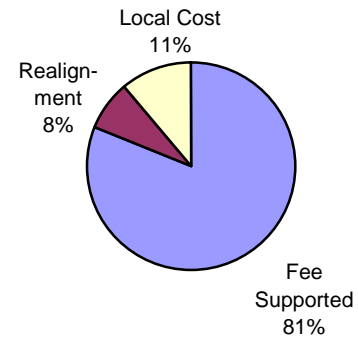
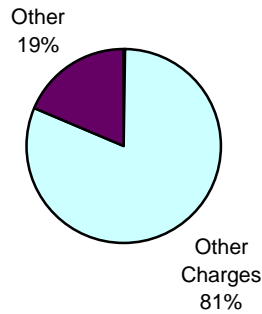
Operating transfers out and realignment are significantly higher than anticipated as a result of a lower reimbursement rate from the state for SB 1732. The reduction in state reimbursements' is due to a decrease in the Arrowhead Regional Medical Center's (ARMC) Medi-Cal Utilization rate. This rate is calculated on an annual basis by the state and it fluctuates up or down based on the number of ARMC's paid Medi-Cal inpatient days compared to other public hospitals in the State of California. As a result of this \$7.0 million adjustment, more transfers from Realignment were needed to cover the Medical Center's Lease Payments. The Medi-Cal Utilization rate is not determined until the end of the fiscal year. Consequently, an annual adjustment to Operating transfers out and realignment is necessary. The combined adjustments for 2001-02 and 2002-03 accounted for a reduction in realignment usage of \$8.7 million.



Other variances existed in salaries and benefits due to unexpected vacancies and in services and supplies due to lower than anticipated expenses for providing Health Insurance Portability and Accountability Act (HIPAA) training to county employees.

Increased 2003-04 transfers are due to the use of HSS support services for operational studies of the Behavioral Health and Public Health Departments.

2004-05 BREAKDOWN BY EXPENDITURE AUTHORITY 2004-05 BREAKDOWN BY FINANCING SOURCE



GROUP: Administrative/Executive
DEPARTMENT: Health Care Costs
FUND: General

BUDGET UNIT: AAA HCC
FUNCTION: Health and Sanitation
ACTIVITY: Hospital Care

ANALYSIS OF 2004-05 BUDGET

	A	B	C	D	E	B+C+D+E F	G Department Recommended Funded Adjustments (Schedule C)	F+G H
	2003-04 Year-End Estimates	2003-04 Final Budget	Cost to Maintain Current Program Services (Schedule A)	Board Approved Adjustments (Schedule A)	Impacts Due to State Budget Cuts (Schedule B)	Board Approved Base Budget		2004-05 Proposed Budget
Appropriation								
Salaries and Benefits	342,248	433,289	25,571	-	-	458,860	13,725	472,585
Services and Supplies	74,832	132,952	491	-	-	133,443	(48,141)	85,302
Central Computer	-	-	710	-	-	710	-	710
Other Charges	95,000,000	110,000,000	-	-	-	110,000,000	-	110,000,000
Transfers	135,060	71,060	-	-	-	71,060	16,860	87,920
Total Appropriation	95,552,140	110,637,301	26,772	-	-	110,664,073	(17,556)	110,646,517
Oper Transfers Out	32,076,820	24,990,782	-	-	-	24,990,782	175,370	25,166,152
Total Requirements	127,628,960	135,628,083	26,772	-	-	135,654,855	157,814	135,812,669
Departmental Revenue								
Realignment	17,628,960	10,628,083	26,772	-	-	10,654,855	157,814	10,812,669
Current Services	95,000,000	110,000,000	-	-	-	110,000,000	-	110,000,000
Total Revenue	112,628,960	120,628,083	26,772	-	-	120,654,855	157,814	120,812,669
Local Cost	15,000,000	15,000,000	-	-	-	15,000,000	-	15,000,000
Budgeted Staffing		4.0	-	-	-	4.0	-	4.0



DEPARTMENT: Health Care Costs
 FUND: General
 BUDGET UNIT: AAA HCC

SCHEDULE A

MAJOR CHANGES TO THE BUDGET

	Budgeted Staffing	Appropriation	Departmental Revenue	Local Cost
2003-04 FINAL BUDGET	4.0	135,628,083	120,628,083	15,000,000
Cost to Maintain Current Program Services				
Salaries and Benefits Adjustments	-	25,571	25,571	-
Internal Service Fund Adjustments	-	1,201	1,201	-
Prop 172	-	-	-	-
Other Required Adjustments	-	-	-	-
Subtotal	-	26,772	26,772	-
Board Approved Adjustments During 2003-04				
30% Spend Down Plan	-	-	-	-
Mid-Year Board Items	-	-	-	-
Subtotal	-	-	-	-
Impacts Due to State Budget Cuts	-	-	-	-
TOTAL BASE BUDGET	4.0	135,654,855	120,654,855	15,000,000
Department Recommended Funded Adjustments	-	157,814	157,814	-
TOTAL 2004-05 PROPOSED BUDGET	4.0	135,812,669	120,812,669	15,000,000

SCHEDULE C

DEPARTMENT: Health Care Costs
 FUND: General
 BUDGET UNIT: AAA HCC

DEPARTMENT RECOMMENDED FUNDED ADJUSTMENTS

Brief Description of Program Adjustment	Budgeted Staffing	Appropriation	Departmental Revenue	Local Cost
1. Increase in Salaries and Benefits. Increase is due to step advances.	-	13,725	-	13,725
2. Decrease in Services and Supplies Services and supplies were decreased to reflect a reduction in HIPAA compliance costs.	-	(48,141)	-	(48,141)
3. Increase in Transfers due to MOU increases. Increase in Transfers out to the County Administrative Office and Human Services System for Budget and Administrative Support.	-	16,860	-	16,860
4. Increase in Operating Transfers Out. This increase is related to an increase in Arrowhead Regional Medical Center's debt service payments.	-	175,370	-	175,370
5. Realignment Increased realignment to fund the above costs.	-	-	157,814	(157,814)
Total	-	157,814	157,814	-

